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C O N F I D E N T I A L SECTION 01 OF 05 PANAMA 000909

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SUBJECT: PANAMA: CHINA AND TAIWAN TEND THEIR GARDENS AS

TORRIJOS GOVERNMENT HUNTS BIGGER GAME: AN ANALYSIS

REF: A. 04 PANAMA 2274

[1B](#). 04 PANAMA 1953

[1C](#). PANAMA 0225

Classified By: AMBASSADOR LINDA WATT FOR REASONS 1.4 (B) AND (D).

SUMMARY

[1](#)1. (C) China had high hopes of replacing Taiwan as Panama's diplomatic partner, given the supposed pro-China tilt of President Torrijos's PRD government, in power since 9/1/2004. Also, Taiwanese diplomats worried that China could use the Mar del Sur public relations disaster (that grew out of the Taiwan embassy's ill-considered financial dealings with the Moscoso administration) to its advantage. While the Taiwan embassy is keeping a low profile and mending its financial practices, China's Trade Development Office has found the Torrijos government less friendly than it expected. Recent discussions between POL Counselor, China Commercial Development Director Yang Fajin, and newly arrived Taiwan ambassador Tomas Hu revealed neither side enjoys close relations with a Panamanian government (GOP) preoccupied with its internal reform agenda and increasingly shy of controversy. There also is evidence that China's new anti-secession law, which sanctions the use of force against Taiwan under certain circumstances, has made a bad impression in GOP circles here. Panama, like most Central American and Caribbean nations, still recognizes Taiwan, and shows no signs of considering a switch to China anytime soon. On the other hand, the growing weight of the China trade and its significance for Panama and for Panama's maritime and logistical infrastructure lend an air of inevitability to China's prospects for eventual recognition, though not necessarily by the Torrijos government. End Summary.

GOP Focuses on Domestic Agenda

[1](#)2. (C) More than six months after the Democratic Revolutionary Party (PRD) -- with its leftist, pro-China past -- took office on 9/1/2004, predictions of a rapid victory by China in its perennial tug-of-war with Taiwan over Panama's diplomatic recognition have failed to materialize. For the moment both China and Taiwan are tending their gardens and girding for future battles, as the pragmatist, technocratic Torrijos government deals with the two biggest items on its political "to-do" list: social security reform, followed by a referendum on Canal modernization. No one expects the GOP to give much attention to China-vs.-Taiwan issues until action on those items is completed, certainly not before 2006.

Taiwan Lays Low

[1](#)3. (C) In a recent meeting, Taiwan Ambassador Tomas Hu told POL Counselor that he and his diplomats are keeping their heads down in the wake of the Mar del Sur and Children's Museum financial assistance scandals that occurred during the Moscoso government. Hu is eager to repair the damage caused by those public relations disasters and re-establish close relations with the Panamanian government (GOP) but is at a loss on how to proceed. So far, the Torrijos government has been cool to his overtures.

[1](#)4. (C) (Comment: Foreign Minister Samuel Lewis has complained to Emboffs that Taiwan diplomats offered large sums of money to the incoming Torrijos government, which Torrijos angrily turned down. Apparently the GOP also has rejected smaller amounts of Taiwanese humanitarian aid. The Mar del Sur scandal, which broke shortly after September 1, 2004 when Torrijos came into office involved \$45 million of Taiwan's money, supposedly earmarked to aid Panama's health system, but actually funneled into a private foundation run by Moscoso officials, who never have adequately explained how the money was spent. The Children's Museum scandal involved discrepancies in the accounting for \$6 million that was donated to a private foundation, run by Moscoso's sister, former First Lady Ruby Moscoso. News sources claim that Taiwan spent \$70 million on Panama projects in all during 1999-2004, including a costly renovation of Panama's Foreign Ministry. See RefTel A. End note.)

Auditor Needed

15. (C) Hu implied that the damage done to Taiwan's public image in Panama was the fault of his predecessor, Ambassador David Hu, who left Panama several months after the Torrijos government took office. While (David) Hu had insisted to Moscoso after the scandal broke that Taiwan considered the funds a state-to-state gift, (Tomas) Hu acknowledged that the Taiwan embassy had never demanded a full accounting and later discovered that probably millions of dollars had gone missing. He agreed that hiring an independent auditor is an essential first step to re-establishing Taiwan's credibility as an aid donor.

Taiwan in the Doghouse

16. (C) In an April 18 meeting, Deputy Foreign Minister Ricardo Duran confirmed that, following the scandals, GOP officials want to keep Taiwanese diplomats and aid offers at arm's length. The Taiwanese would like President Torrijos to visit Taiwan, he said, but Torrijos has shown no interest. "Everybody" is nervous about having anything to do with Taiwan right now, Duran told POL Counselor, especially because the Torrijos government's platform emphasizes anti-corruption and transparency.

"The Worst Imperialists"

17. (C) Reflecting on the last 50-plus years of relations with Taiwan, Duran said it was almost "an unwritten rule" that Panama has relations with Taiwan. No U.S. diplomat, he continued, has ever said that Panama should not have relations with China. Although establishing relations with China seems like "a matter of time," Duran noted that to date the GOP has not seriously discussed the matter. Duran observed that the Chinese (Taiwanese included) are "the worst imperialists," because they expect their money to buy them the right to tell small countries (like Panama) what to do. (Note: Duran helped to negotiate the 1995-96 agreement that established China's Trade Development office in Panama. End note.)

China's Anti-Secession Law Makes A Bad Impression

18. (C) In an April 7 meeting with PolOff, MFA Asia Director Floreal Garrido said the GOP will make "no immediate change" in the Taiwan vs. China status quo and has no specific plans to shift recognition. The GOP approach to relations with Taiwan and China will be "thoughtful and measured." Garrido showed high interest in U.S. views of China's new anti-secession law, which he called "severe." He added that the GOP is "worried" about China's willingness to use force to deal with Taiwan.

Dissing "Checkbook Diplomacy"

19. (C) During a March 28 meeting with POL Counselor, China's Trade Development Director Yang Fajin crowed that the Taiwanese had got themselves in trouble in Panama (and elsewhere in Central America) through imprudent use of "checkbook diplomacy." (Comment: Sic! China apparently convinced the Caribbean islands of Dominica in 2004 and Grenada in 2005 to dump Taiwan for China after promising much larger amounts of aid, investment, and cold cash than Taiwan could promise. End comment.) Yang was not forlorn on the prospect of closer relations with Panama but he was downbeat. The Panamanians "haven't decided anything" on the subject, he deadpanned. He refused to guess when the GOP would decide something. Betraying his frustration, Yang asked POL Counselor whether he thought Panama would move to establish relations with China. POL Counselor was non-committal. (Bio Note: A career diplomat, Yang has served in Cuba, Argentina, Peru, Ecuador, Venezuela, and Spain. He speaks good Spanish but little English. End Bio note.)

Deep Pockets Shop Real Estate

110. (C) Yang considers the GOP's slowness in deciding anything about China relations and its pursuit of other priorities as a setback, but only a temporary one. Not averse of giving the impression that Panama's recognition of China is just a matter of time, Yang mentioned that he is looking at two-hectares of real estate in Clayton (in the former Canal Zone, down the hill and across the street from the U.S. Embassy construction site) to buy for a PRC embassy, if one is needed. The Clayton lot includes a former U.S. military hostel, Yang said, which must be inspected and approved by engineers from China. No decision has been made on purchasing the land, he added. (Comment: RSO is interested in Yang's assertion, and is actively evaluating his claims, in light of the recent New Embassy Compound startup. End Comment.)

A Pricy Kitchen and Patio

11. (C) With money apparently no object, Yang explained that he has almost finished a half-million-dollar upgrade of his Altos de Golf residence, including a much bigger patio (with room for 100 guests), a new kitchen, and a new dining area with seating for 40. (The previous dining area was a smallish room with a large circular table seating 10.) Also, Yang confirmed that the China Trade Development Office (the official name is Oficina de Desarrollo Comercial Chino-Panameno) is planning to rent new high-rise offices and to triple its floor space to around 25,000 square feet (from 8,000 currently).

Venezuela-Panama Pipeline

12. (C) Yang claimed the Venezuela-Panama pipeline proposal (Reftel B) does not involve China directly. The idea is Venezuela's and Venezuela presumably will pay all the costs, he said, but he acknowledged that in general China is looking for new sources of oil. Venezuela produces a heavy crude that needs special refinery facilities, POL Counselor said. In addition, China can expect to buy the oil at world prices only if Venezuela agrees, in effect, to subsidize the cost of shipping the crude across the Isthmus to the Pacific. Yang seemed untroubled.

More on the Pipeline...

13. (C) In an April 13 meeting, MFA Foreign Relations chief Dario Chiru told POL Counselor that, as envisaged, the Panama-Venezuela pipeline deal would permit oil flow both directions, cost \$20-25 million, but would be a 100% Panamanian (or non-Venezuelan) investment. (Comment: Estimates range up to \$100 million. See Septel forthcoming which will discuss details. End Note.) Chiru, who was ambassador to Haiti during 1995-1999, said the 1994-1999 Perez Balladares government tried hard to convince Taiwanese companies to invest in Panama. The project failed, Chiru claimed, because the Taiwanese wanted to invest in China instead. (See Reftel C.)

...And Bananas

14. (C) Having committed itself to create jobs, the Torrijos government is worried by the downward spiral (due to faulty administration and higher EU tariffs) of the Puerto Armuelles banana company in western Panama, which now employs 2,000 workers, Chiru said. (Note: The company once employed as many as 8,000, but that figures included many contract workers. End Note.) Ecuador is selling bananas to China, Chiru mentioned, hinting that Panama would like to do the same. (Note: Chiru himself favors establishing relations with China. End note.)

Corruption Hurts China

15. (C) Yang applauded the State Department recent decision (under 212-f) to revoke the U.S. visa of former Panamanian Maritime Authority (AMP) Administrator Bertilda Garcia for corrupt practices, adding that Panamanians claimed that Garcia had stolen \$20 million. Japan had complained about the treatment of its vessels and the delays they faced under Garcia's regime, Yang said, in which ship licensing applications all were funneled into one small company, the better to control them and siphon off the proceeds. With that regime now dismantled, China also benefits, he implied. Chinese companies own 200 Panamanian-flagged ships.

"Yankee Perfidy"?

16. (C) Apparently having nerved himself, at meeting's end Yang complained that he had heard from Panamanians that "the Americans" were trying to discourage them from establishing relations with China. Yang asked whether that was true. POL Counselor denied it and reminded Yang of the U.S. one-China policy, the three U.S.-China communiqués, China's seats in the United Nations General Assembly and Security Council, and long-standing U.S. diplomatic relations with China. (Comment: Torrijos officials repeatedly have made clear that the GOP will consult with the Embassy when and if they hold serious discussions on China vs. Taiwan. See Reftels A and 1B. End Comment.)

COSCO Has A Birthday

17. (SBU) On April 13, Yang paraded his best GOP contacts at a banquet at a local Chinese restaurant (ironically situated in the Taiwan-owned Evergreen Building) to celebrate the 10th

anniversary of COSCO (China Ocean Shipping Company) in Panama. In attendance were Second Vice President and AMP Administrator Ruben Arosemena, the president's cousin and maritime advisor Hugo Torrijos, and Merchant Marine Director Fernando Solorzano. COSCO, a state-owned company, has 120 ships, most or all of them under the Panamanian flag, officials told POL Counselor.

COSCO Allies With Taiwan's Evergreen

18. (SBU) COSCO recently began joint operations with Taiwan's Evergreen-owned Colon Container Terminal, on Panama's Caribbean side. COSCO also is interested in acquiring part of a U.S.-owned ship repair yard on Panama's Pacific coast, and possibly expanding those operations to a Caribbean facility. East Asian interest in Panama is not confined to the Chinese. A private Singaporean investment group arrived in Panama during the week of April 18 to discuss potential investments in Atlantic and Pacific-side "mega ports," according to banker Max Harari.

COSCO Trains Panamanians, or Vice Versa?

19. (SBU) COSCO also has begun training Panamanian maritime personnel during Canal transits, MFA Asia Director Garrido confirmed. Implying that the training is as much for the benefit of the Chinese as the Panamanians, Garrido said it could help overcome Chinese-Panamanian friction in COSCO's operations. Garrido implied that Chinese are not familiar with Panamanian laws and procedures, which sometimes causes friction with Panamanian authorities. The training also is a good way for Chinese and Panamanians to overcome cultural barriers and get used to working with each other.

Comment

20. (C) Booming growth in East Asia, containerization, China's entry into the WTO, the apparently bottomless U.S. appetite for Chinese goods, China's growing stake in the global shipping industry, all have made the all-water Canal route to the Atlantic much more important for China than just a few years ago. China's view of the Canal is similar to the U.S. view: It is a vital conduit and vulnerable choke-point. Above all, China wants to assure free access and speedy transit for its burgeoning and increasingly valuable exports of finished goods to the U.S. East Coast and its imports of raw materials from South America, especially Brazil. China also is busy building the world's largest fleet of commercial sea-going vessels, which already includes 200 Panamanian flagged vessels. Many of the world's "mega" post-Panamax ships belong or will belong to Chinese companies. Without the rise of the China trade, Panama probably would not now have to consider widening the Canal.

21. (C) It is ironic that the success of U.S.-China trade relations and China's entry into the WTO are directly responsible for China's enhanced commercial profile in Panama. The GOP is well aware of the steadily increasing value of the China trade passing through the Canal and of Chinese investments in Panama. China already is the Canal's second-biggest user. Chinese firms are active investors in developing Panama's maritime logistical infrastructure, which the GOP sees as crucial for Panama's economic growth. Meanwhile, Taiwan's shenanigans with the Moscoso government have complicated its position in Panama for the present. But the GOP fears that an ill-considered move toward China could compromise its relations with the United States, its most important bilateral partner. The Embassy does not anticipate a change in the status quo for the foreseeable future.

WATT